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**DOMINION-SCOTTISH
INVESTMENTS
LIMITED**



Thirty-Eighth
ANNUAL REPORT
December 31, 1966

Board of Directors

W. A. ARBUCKLE, C.A.

Director
Bank of Montreal

J. K. MACDONALD

President
Confederation Life Association

J. G. HUNGERFORD, Q.C.

Chairman
National Trust Company

THOMAS S. JOHNSTON

President
Interprovincial Pipeline Co.

NEIL B. IVORY

Director
Great Britain and Canada
Investment Corporation

LAWRENCE W. SKEY, D.F.C.

Director and Treasurer
Scudder International Investments Ltd.

Officers

W. A. ARBUCKLE

Chairman

J. K. MACDONALD

Deputy Chairman

ROBERT W. INGLIS, C.A.

Secretary-Treasurer

Managers

THREADNEEDLE MANAGEMENT LIMITED

(a wholly-owned subsidiary of Arbuckle, Govett & Co. Ltd.)

Head Office.....11 ADELAIDE ST. WEST, TORONTO, ONTARIO

Shares Listed.....TORONTO STOCK EXCHANGE

Bankers.....BANK OF MONTREAL

Auditors.....RIDDELL, STEAD, GRAHAM & HUTCHISON

Transfer Agent and Registrar.....THE ROYAL TRUST COMPANY

Trustee.....THE CANADA TRUST COMPANY

DIRECTORS' REPORT TO THE SHAREHOLDERS

EARNINGS AND DIVIDENDS

Net income for 1966 amounted to \$484,353 which compares favourably with \$434,623 earned in 1965. After deducting preference dividends of \$150,000, the balance available for common shareholders was \$334,353 or 47 cents per share. This represented an increase of 7 cents per common share over 1965 and permitted an increase in total common dividends paid from 32 cents to 38 cents per share.

NET ASSET VALUE

Net asset value per common share amounted to \$14.69 at December 31, 1966, a decline of 12.5% from 1965. During 1966 the Toronto Stock Exchange Combined Index and the Montreal Stock Exchange Composite Index recorded declines of 10.6% and 10.7% respectively while The Dow Jones Industrial Average dropped 18.9%. The value of the portfolio dropped by only 8.8% but the leverage inherent in the Trust's capitalization caused net asset value per common share to decline slightly more than the Stock Exchange averages in Canada.

CAPITAL AND LEVERAGE

As forecast in last year's Report conditions in 1966 did not favour the issuance of additional senior securities and thus the leverage factor remained unchanged. Should markets change during 1967 in favour of further bonds or preference shares being issued your Directors will give such eventuality serious consideration.

INVESTMENT PORTFOLIO

The assets of the Trust were invested in 69 securities at December 31, 1966. The portfolio is listed on pages 7 to 10 of this Report and a summary by industry is set out on page 10. It will be noted that 95% of the portfolio is invested in dollar common stocks and that the majority of the debentures and preferred shares held are convertible or were issued with warrants to purchase common shares.

REVIEW AND OUTLOOK

In the first quarter of 1966 the Canadian economy expanded at a very rapid rate and this quarter accounted for the major part of the entire year's gain in Gross National Product of approximately 9% in dollar value. In the second quarter stringent monetary policies started to exert a dampening effect on the economy and by the third quarter the year-to-year gain in Gross National Product was at a negligible rate.

It would now appear that inventory adjustments are well advanced and that capital spending has settled down to a sustainable pace. The peak in the squeeze on corporate profits may also have been reached although strong upward pressure on wage costs is a continuing cause for concern.

Renewed strength in our economy will be largely dependent on developments in the U.S. where the adjustment is a few months behind ours. In both countries easier credit conditions should ultimately lead to an expansion in housing starts from the very low levels now prevailing and this should stimulate the entire economy by the end of this year or early in 1968.

Canada's international balance of payments presents a persistent problem but Expo 67 will have a very favourable impact this year and, in ensuing years, the projected strong world demand for wheat and many of our raw materials should ensure a bright future for this country.

ANNUAL MEETING

The Annual General Meeting of Shareholders has been called for Friday, April 14, 1967. Both preference and common shareholders are cordially invited to attend.

Directors retiring at the forthcoming Meeting in accordance with the By-laws are Messrs. W. A. Arbuckle, J. K. Macdonald and L. W. Skey. They are eligible for re-election.

On behalf of the Board,

W. A. ARBUCKLE,
Chairman.

February 17, 1967.
Toronto 1, Canada.

DOMINION-SCOTTISH INVESTMENTS LIMITED

(Incorporated under the laws of Canada)

BALANCE SHEET

As at December 31, 1966

| ASSETS | | 1966 | 1965 |
|---|----|---------------------|---------------------|
| Current Assets | | | |
| Cash | \$ | 192,363 | \$ 282,529 |
| Guaranteed Investment Certificate | | 100,000 | 150,000 |
| Accounts receivable | | 225 | 4,403 |
| Income taxes recoverable | | 8,441 | |
| | | <u>301,029</u> | <u>436,932</u> |
| Investments | | | |
| Investments at quoted market value | | 15,397,559 | 17,017,800 |
| (cost 1966—\$12,835,174; 1965—\$12,548,402) | | | |
| | | <u>\$15,698,588</u> | <u>\$17,454,732</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current Liabilities | | | |
| Accrued expenses | \$ | 3,423 | \$ 5,041 |
| Due to brokers for securities purchased | | 29,604 | 271,521 |
| Accrued bond interest | | 40,000 | 40,000 |
| Income taxes payable | | | 2,240 |
| | | <u>73,027</u> | <u>318,802</u> |
| Funded Debt | | | |
| First collateral trust, Series "B" and "C" 4% bonds, due July 1, 1969 | | <u>2,000,000</u> | <u>2,000,000</u> |
| Shareholders' Equity | | | |
| Capital Stock — | | | |
| Preference — | | | |
| Authorized — | | | |
| 76,730 5% cumulative, redeemable (at \$52.50) preference shares, par value \$50 each | | | |
| Issued — | | | |
| 60,000 shares | | 3,000,000 | 3,000,000 |
| Common — | | | |
| Authorized — | | | |
| 1,200,000 common shares of no par value | | | |
| Issued — | | | |
| 713,224 shares | | 2,979,493 | 2,979,493 |
| Accumulated surplus on sale of investments | | 4,696,275 | 4,362,959 |
| Earned Surplus | | 387,408 | 324,080 |
| Unrealized appreciation of investments | | 2,562,385 | 4,469,398 |
| Total shareholders' equity | | <u>13,625,561</u> | <u>15,135,930</u> |
| | | <u>\$15,698,588</u> | <u>\$17,454,732</u> |

On behalf of the Board:

WILLIAM A. ARBUCKLE, Director

NEIL B. IVORY, Director

DOMINION-SCOTTISH INVESTMENTS LIMITED

STATEMENT OF INCOME

For the Year ended December 31, 1966

| | 1966 | 1965 |
|--|-------------------|-------------------|
| Income | | |
| Dividends from Canadian corporations | \$ 518,745 | \$ 455,599 |
| Dividends from foreign corporations | 86,452 | 63,594 |
| Interest received | 32,539 | 66,535 |
| | <u>637,736</u> | <u>585,728</u> |
| Expenses: | | |
| Administrative expenses | 19,048 | 17,134 |
| Investment advisory fee | 7,500 | 5,625 |
| Directors' fees and salaries | 14,950 | 15,729 |
| Bond interest | 80,000 | 80,000 |
| Bank charges (including interest) | 3,522 | 3,451 |
| Trustee, registrar, legal and audit fees | 6,363 | 6,166 |
| | <u>131,383</u> | <u>128,105</u> |
| Income before Income Taxes | 506,353 | 457,623 |
| Provision for Income Taxes | 22,000 | 23,000 |
| Net Income | <u>\$ 484,353</u> | <u>\$ 434,623</u> |

STATEMENT OF EARNED SURPLUS

For the Year ended December 31, 1966

| | 1966 | 1965 |
|--|-------------------|-------------------|
| Balance at Beginning of Year | \$ 324,080 | \$ 274,225 |
| Add Net Income for Year | 484,353 | 434,623 |
| | <u>808,433</u> | <u>708,848</u> |
| Deduct: | | |
| Cost of issuing common shares | — | 17,235 |
| Dividends paid — | | |
| On preference shares at the rate of \$2.50 per share | 150,000 | 150,000 |
| On common shares at the rate of \$.38 per share | | |
| (1965—\$.32 per share) | 271,025 | 217,533 |
| | <u>421,025</u> | <u>384,768</u> |
| Balance at End of Year | <u>\$ 387,408</u> | <u>\$ 324,080</u> |

DOMINION-SCOTTISH INVESTMENTS LIMITED

STATEMENT OF ACCUMULATED SURPLUS ON SALE OF INVESTMENTS

For the Year ended December 31, 1966

| | 1966 | 1965 |
|---|---------------------|---------------------|
| Balance at Beginning of Year | \$ 4,362,959 | \$ 4,171,610 |
| Net Gain on Disposal of Investments | 333,316 | 191,349 |
| Balance at End of Year | <u>\$ 4,696,275</u> | <u>\$ 4,362,959</u> |

STATEMENT OF UNREALIZED APPRECIATION OF INVESTMENTS

For the Year ended December 31, 1966

| | 1966 | 1965 |
|---|---------------------|---------------------|
| Balance at Beginning of Year | \$ 4,469,398 | \$ 4,033,940 |
| Net Increase or (Decrease) for the Year | (1,907,013) | 435,458 |
| Balance at End of Year | <u>\$ 2,562,385</u> | <u>\$ 4,469,398</u> |

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the accompanying financial statements of Dominion-Scottish Investments Limited for the year ended December 31, 1966 comprising the balance sheet as at that date and the statements of income, earned surplus, accumulated surplus on sale of investments and unrealized appreciation of investments for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the aforementioned statements present fairly the financial position of the company as at December 31, 1966 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
January 20, 1967.

RIDDELL, STEAD, GRAHAM & HUTCHISON
Chartered Accountants

DOMINION-SCOTTISH INVESTMENTS LIMITED

PORTFOLIO AS AT DECEMBER 31, 1966

BONDS AND DEBENTURES (2.61% of net assets)

| | Par Value | Market Value |
|--|--------------|-------------------|
| Bethlehem Copper Corp. Ltd. 6% convertible sinking fund debentures, Series "A" due October 1, 1975 | \$ 80,000 | \$ 81,600 |
| British Columbia Molybdenum Corp. Ltd. 5¼ % debentures, Series "A" due April 1, 1976 (with warrants to purchase common shares) | 180,000 | 184,500 |
| Fruehauf Trailer Co. of Canada Ltd. 5¼ % sinking fund debentures, Series "A" due November 1, 1976 | 25,000 | 21,000 |
| Northgate Exploration Ltd. 6½ % collateral trust debentures due May 1, 1971 | 40,000 | 38,800 |
| Western Decalta Petroleum Ltd. 6% sinking fund debentures Series "A" due June 1, 1985 | 100,000 | 82,000 |
| | | <u>\$ 407,900</u> |

PREFERRED SHARES (.67% of net assets)

| | | |
|---|-------|-------------------|
| Bow Valley Industries Ltd. 5½ % Cum. Red. Pref. Series "A" (with warrants to purchase common shares) | 5,000 | <u>\$ 105,250</u> |
|---|-------|-------------------|

COMMON AND CONVERTIBLE PREFERRED SHARES (95.25% of net assets)

| | Number of Shares | Market Value |
|---|---------------------|---------------------|
| BANKS (7.41% of net assets) | | |
| Bank of Montreal | 3,000 | \$ 158,625 |
| Bank of Nova Scotia | 2,500 | 160,000 |
| Banque Canadienne Nationale | 2,000 | 101,000 |
| Canadian Imperial Bank of Commerce | 4,000 | 232,000 |
| Montreal City & District Savings Bank | 6,000 | 72,000 |
| Royal Bank of Canada | 3,000 | 207,000 |
| Toronto-Dominion Bank | 4,000 | 228,000 |
| | | <u>\$ 1,158,625</u> |

COMMON STOCKS (Continued)

| | Number of Shares | Market Value |
|--|---------------------|-------------------|
| FINANCIAL (4.37% of net assets) | | |
| Great Britain and Canada Investment Corp. | 5,400 | \$ 62,100 |
| Industrial Acceptance Corp. Ltd. | 15,000 | 315,000 |
| National Trust Co. Ltd. | 10,000 | 162,500 |
| Power Corp. of Canada Ltd. | 15,000 | 142,500 |
| | | <u>\$ 682,100</u> |

FOOD AND BEVERAGE (11.52% of net assets)

| | | |
|---|--------|---------------------|
| T. G. Bright & Co., Limited | 5,000 | \$ 320,000 |
| Canada & Dominion Sugar Co. Ltd. | 10,000 | 205,000 |
| Canada Malting Co., Limited | 4,000 | 72,000 |
| Distillers Corporation-Seagrams Limited | 8,000 | 267,000 |
| Federal Grain Ltd. | 30,000 | 183,750 |
| Growers Wine Co. Ltd., Class "B" | 30,000 | 102,000 |
| Maple Leaf Mills Ltd. | 10,000 | 170,000 |
| Molson Breweries Ltd., Class "B" | 10,000 | 192,500 |
| Walker-Gooderham & Worts Ltd., Hiram | 10,000 | 287,500 |
| | | <u>\$ 1,799,750</u> |

GENERAL MANUFACTURING (7.19% of net assets)

| | | |
|--|-------|---------------------|
| British American Bank Note Co. Ltd. | 5,000 | \$ 335,000 |
| Carrier Corporation | 5,000 | 418,500 |
| International Business Machines Corp. | 650 | 261,846 |
| Massey-Ferguson Ltd. | 4,800 | 108,600 |
| | | <u>\$ 1,123,946</u> |

HEAVY INDUSTRY (5.82% of net assets)

| | | |
|--------------------------------------|--------|-------------------|
| Algoma Steel Corp. Ltd. | 10,000 | \$ 222,500 |
| Dominion Foundries & Steel Ltd. | 16,000 | 292,000 |
| General Dynamics Corp. | 3,000 | 155,115 |
| Steel Co. of Canada Ltd. | 12,000 | 240,000 |
| | | <u>\$ 909,615</u> |

MERCHANDISING (4.95% of net assets)

| | | |
|---|--------|-------------------|
| Famous Players Canadian Corp. Ltd. | 15,000 | \$ 502,500 |
| Peoples Credit Jewellers Limited | 7,600 | 96,125 |
| Tamblyn Ltd., G. | 7,000 | 175,000 |
| | | <u>\$ 773,625</u> |

COMMON STOCKS (Continued)

| | Number of Shares | Market Value |
|--|---------------------|---------------------|
| METALS AND MINING (9.38% of net assets) | | |
| Alcan Aluminium Limited | 12,000 | \$ 361,500 |
| International Nickel Co. of Canada Ltd. | 6,000 | 569,250 |
| Noranda Mines, Limited | 7,000 | 346,500 |
| Opemiska Copper Mines (Quebec) Ltd. | 20,000 | 188,000 |
| | | <u>\$ 1,465,250</u> |
| PAPER AND FOREST PRODUCTS (7.54% of net assets) | | |
| Abitibi Power & Paper Co. Ltd. | 16,000 | \$ 158,000 |
| Columbia Cellulose Co. Ltd., \$1.20 Cum. Red. Conv. Pref. | 10,000 | 187,500 |
| MacMillan, Bloedel Ltd. | 20,000 | 465,000 |
| Price Company Limited | 30,000 | 367,500 |
| | | <u>\$ 1,178,000</u> |
| PETROLEUM AND PIPELINES (11.21% of net assets) | | |
| Ashland Oil & Refining Co. | 4,000 | \$ 140,940 |
| British American Oil Co. Ltd. | 8,000 | 260,000 |
| Cities Service Co. | 5,000 | 251,775 |
| Imperial Oil Ltd. | 5,000 | 288,125 |
| Interprovincial Pipe Line Co. | 5,000 | 423,750 |
| McDermott & Co. Inc., J. Ray | 3,000 | 251,100 |
| Texaco Canada Ltd. | 2,000 | 136,250 |
| | | <u>\$ 1,751,940</u> |
| PRINTING AND PUBLISHING (6.54% of net assets) | | |
| McCall Corporation | 4,120 | \$ 115,690 |
| Moore Corporation Ltd. | 4,000 | 346,000 |
| Southam Press Ltd. | 10,000 | 321,250 |
| Sun Publishing Co. Ltd., Class "A" | 10,000 | 238,750 |
| | | <u>\$ 1,021,690</u> |
| PUBLIC UTILITIES (12.53% of net assets) | | |
| Bell Telephone Co. of Canada | 4,905 | \$ 228,082 |
| British Columbia Telephone Co. | 10,000 | 632,500 |
| Consumers' Gas Co. | 20,000 | 307,500 |
| Great Lakes Power Corporation Limited | 6,000 | 135,000 |
| Northern and Central Gas Company Limited | 12,000 | 160,500 |
| Quebec Telephone | 12,600 | 231,525 |
| United Gas Corporation | 5,000 | 263,250 |
| Sundry Securities | — | 81 |
| | | <u>\$ 1,958,438</u> |

COMMON STOCKS (Continued)

| | Number of Shares | Market Value |
|---|---------------------|---------------------|
| TRANSPORTATION (6.79% of net assets) | | |
| Canadian Pacific Railway Co. | 2,000 | \$ 109,500 |
| Delaware & Hudson Company | 8,500 | 291,465 |
| New York Central Railroad Co. | 3,000 | 221,940 |
| Overland Express Ltd., 60c. Cum. Conv. Pref. | 3,000 | 28,125 |
| Pan American World Airways, Inc. | 4,000 | 236,520 |
| Seaboard Air Line Railroad Co. | 4,000 | 173,880 |
| | | <u>\$ 1,061,430</u> |
| TOTAL COMMON AND CONVERTIBLE PREFERRED SHARES | | <u>\$14,884,409</u> |

| | SUMMARY | Percentage of Net Assets | |
|----------------------------|-------------------------------|-----------------------------|-------|
| | | at December 31 | |
| | Market Value Dec. 31, 1966 | 1966 | 1965 |
| BONDS AND DEBENTURES | \$ 407,900 | 2.61% | 3.04% |
| PREFERRED SHARES | \$ 105,250 | .67% | 1.63% |

COMMON AND CONVERTIBLE PREFERRED SHARES

| | | | |
|---------------------------------|---------------------|----------------|----------------|
| Banks | 1,158,625 | 7.41% | 8.06% |
| Financial | 682,100 | 4.37 | 3.72 |
| Food and Beverage | 1,799,750 | 11.52 | 11.05 |
| General Manufacturing | 1,123,946 | 7.19 | 7.99 |
| Heavy Industry | 909,615 | 5.82 | 9.58 |
| Merchandising | 773,625 | 4.95 | 3.38 |
| Metals and Mining | 1,465,250 | 9.38 | 8.84 |
| Paper and Forest Products | 1,178,000 | 7.54 | 7.66 |
| Petroleum and Pipelines | 1,751,940 | 11.21 | 10.47 |
| Printing and Publishing | 1,021,690 | 6.54 | 3.30 |
| Public Utilities | 1,958,438 | 12.53 | 13.32 |
| Transportation | 1,061,430 | 6.79 | 7.27 |
| | <u>14,884,409</u> | <u>95.25%</u> | <u>94.64%</u> |
| TOTAL INVESTMENTS | 15,397,559 | 98.53% | 99.31% |
| Cash in bank, etc., net | 228,002 | 1.47 | .69 |
| TOTAL NET ASSETS | <u>\$15,625,561</u> | <u>100.00%</u> | <u>100.00%</u> |

DOMINION-SCOTTISH INVESTMENTS LIMITED

Ten-Year Financial Summary

| Year Ended Dec. 31 | Gross Income | Bond Interest | Expenses | Income Taxes | Net Income | Total Net Assets | Funded Debt and Preference Shares * | Available for Common Shares | Asset Value per Common Share |
|--------------------------|-----------------|------------------|----------|-----------------|---------------|---------------------|--|-----------------------------------|---------------------------------------|
| 1957 | 307,969 | 50,000 | 34,400 | 10,500 | 213,069 | 6,236,088 | 3,434,362 | 2,801,726 | 5.21 |
| 1958 | 283,055 | 50,000 | 29,468 | 8,100 | 195,487 | 8,154,255 | 3,434,362 | 4,719,893 | 8.80 |
| 1959 | 296,320 | 50,000 | 32,205 | 12,000 | 202,115 | 8,303,325 | 3,428,850 | 4,874,475 | 9.09 |
| 1960 | 319,494 | 50,000 | 37,604 | 17,000 | 214,890 | 8,360,966 | 3,428,430 | 4,932,536 | 9.21 |
| 1961 | 359,103 | 50,000 | 38,422 | 16,000 | 254,681 | 10,039,031 | 3,428,430 | 6,610,601 | 12.34 |
| 1962 | 369,870 | 50,000 | 39,156 | 10,000 | 270,714 | 10,458,791 | 4,650,000 | 5,808,791 | 10.85 |
| 1963 | 403,080 | 50,000 | 37,097 | 10,700 | 305,283 | 11,518,886 | 4,650,000 | 6,868,886 | 12.84 |
| 1964 | 449,532 | 76,515 | 39,489 | 10,700 | 322,828 | 13,568,928 | 5,150,000 | 8,418,928 | 15.74 |
| 1965 | 585,728 | 80,000 | 48,105 | 23,000 | 434,623 | 17,135,930 | 5,150,000 | 11,985,930 | 16.80 |
| 1966 | 637,736 | 80,000 | 51,383 | 22,000 | 484,353 | 15,625,561 | 5,150,000 | 10,475,561 | 14.69 |

*Preference shares at redemption price of \$52.50 per share.

